



CBG Australian Equities Fund update – May 2017

Market commentary

The Australian equity market returned -2.8% in May, after the announcement of a bank levy and uninspiring profit results precipitated a 10% sell-off in the major banks. Excluding the banks, the market was approximately flat for the month.

The banks reported flat to negative revenue growth for the half year, excluding markets and trading, with CBA outperforming peers on this measure. This was disappointing given mortgage repricing activity, while the banks pointed to a greater repricing benefit in the second half.

Improving cost control was one positive aspect and bad debts also remained at very low levels. This was overshadowed by the Government's bank levy, which is expected to impact earnings by approximately -2%,

assuming approximately half of the cost can be passed on to customers.

The Fund moved to slightly underweight the banks sector relative to the broad market in late March, given valuations were above long run averages despite a subdued growth outlook.

International equity markets were largely positive in May, with the S&P500 gaining 1.2%, the FTSE100 up 4.4%, the German Dax up 1.4%, the Nikkei 225 up 2.4% and the NZX50 up 0.5%, while the Shanghai composite declined 1.2%.

Across Australian industry sectors, telecommunications +3.4%, energy +2.0% and utilities +1.0% led gains, while banks -9.8%, industrials -3.5% and diversified financials -1.6% were the worst performing sectors.

Performance and commentary (to 31 May 2017)

Unit price (exit): \$1.47	1 month %	3 months %	1 year %	3 years (pa) %	5 years (pa) %	Since inception (pa) %
CBG Australian Equities Fund	-2.4	2.1	1.1	5.5	14.0	7.7
S&P/ASX200 Accumulation Index	-2.8	1.5	11.1	6.0	11.9	5.7

Please note that for comparability, performance figures are now shown before fees.
Inception date 27 March 2006

The strongest relative contributors within the portfolio in the month were Macquarie Atlas Roads (**MQA**) and Janus Henderson Group (**JHG**). The biggest detractors were Automotive Holdings Group (**AHG**) and Vocus Group (**VOC**).

Macquarie Atlas Roads (**MQA**, 4.6% weight) returned 9.6% in May, benefiting from a 19bp reduction in the Australian Government 10-year bond yield and a 4.0% strengthening of the euro relative to the Australian dollar. Approximately 85% of MQA's forecast earnings are derived from the APRR toll road in the east of France.

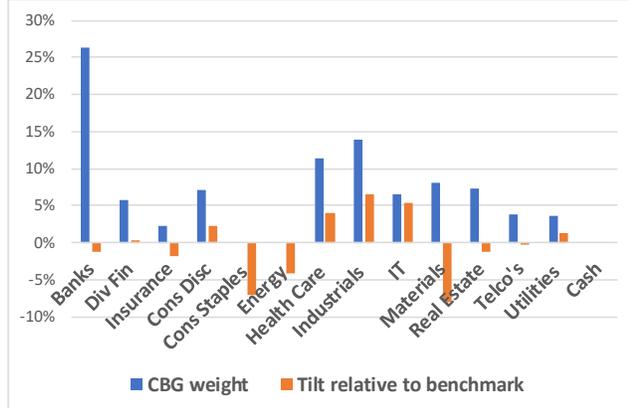
Janus Henderson Group (**JHG**, 3.7% weight) returned 6.7%, also benefiting from a strengthening euro and as the merger between Janus Capital and Henderson Group was completed. Management is targeting cost synergies from the merger which equate to more than 20% of combined earnings.

Automotive Holdings Group (**AHG**, 2.0% weight) returned -21.2% after reducing FY2017 net profit guidance by 9% as a result of softer vehicle industry sales, particularly in WA, and tighter consumer credit conditions. With the company continuing to target operational improvements and given upside relative to our valuation, the fund has maintained its position.

Vocus Group (**VOC**, 1.0% weight) returned -16.3% after again downgrading FY2017 net profit guidance. The operational issues at Vocus are well known, but the company owns a number of valuable assets which could generate materially higher earnings once these issues have been worked through. In this context, the company received a non-binding takeover proposal in early June, which has seen the stock price gain 30.5% for the month to date.

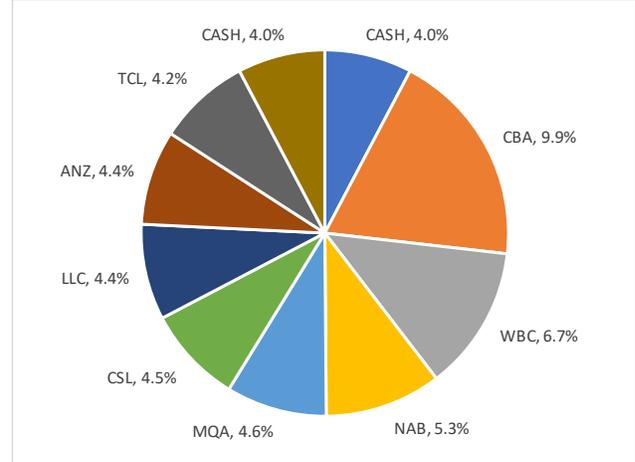
Portfolios statistics (as at 31 May 2017)

Sector allocations vs benchmark



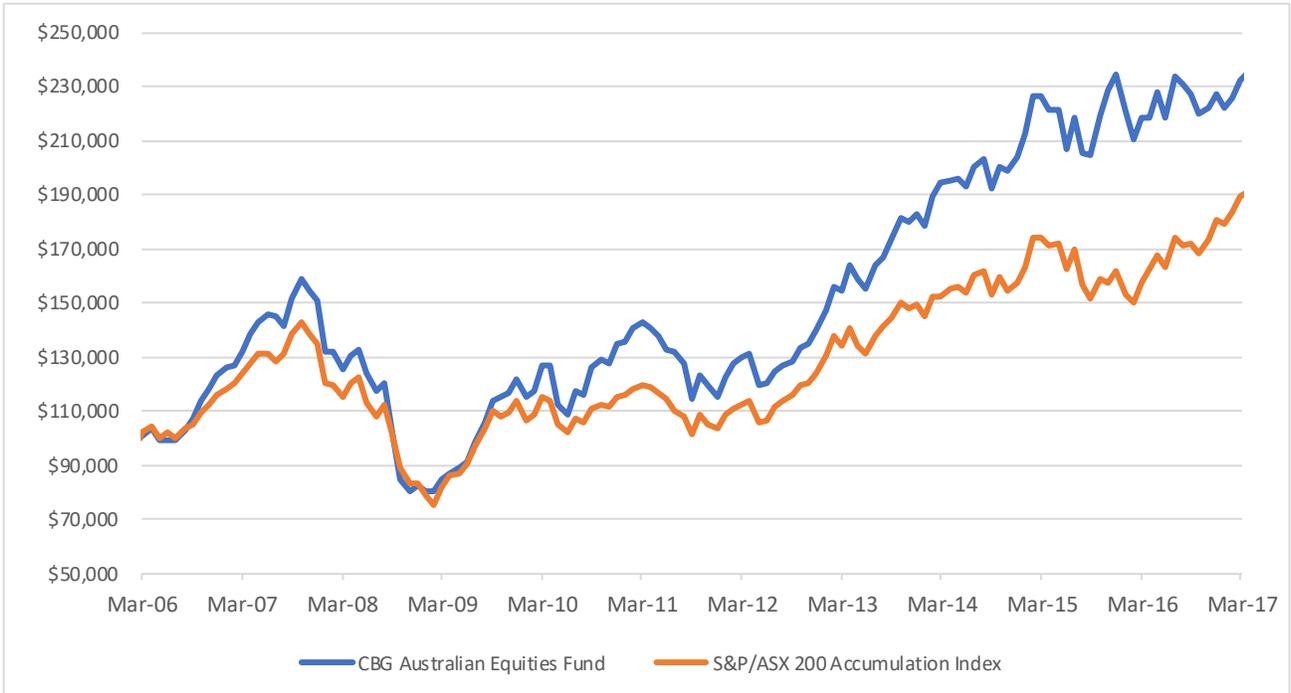
SOURCES: CBG, IRESS

Top 10 holdings



SOURCE: CBG

Value of \$100,000 invested in the CBG Australian Equities Fund compared to the benchmark (before fees)



SOURCE: CBG

Disclaimer: Past performance is no guarantee of future performance. Performance shown is net of fees, but before taxes. The content of this fact sheet has been prepared without taking into account any individual's objectives, financial situation or needs. Because of that, before acting you should consider the appropriateness of what is included here, having regard for your own objectives, financial situation and needs. Before making any decision about whether or not to acquire or continue to hold a financial product mentioned in this fact sheet, you should obtain and consider the latest disclosure document for the product. You should also obtain advice from your qualified Financial Adviser.

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